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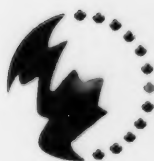
Agriculture et
Agroalimentaire Canada

Canada

**Agri-Food
COUNTRY PROFILE**

CHINA

JANUARY 2000



Team Canada • Équipe Canada

CHINA

AGRI-FOOD COUNTRY PROFILE

JANUARY 2000

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TABLE OF CONTENTS

SECTOR INFORMATION	6
Background Information	6
Geography	6
Infrastructure	6
Political	7
Economy	7

Trade and Investment	9
Canada - China trade and Investment	9
Competitors	10
AGRICULTURE AND AGRI-FOOD OVERVIEW	12
Trade Policy and Competitive Analysis	13
Farm and Food Policy	13
MARKET PENETRATION	15
Regional Chinese Markets	15
Trade Barriers	16
Import Quotas	17
Import Documentation	17
Authentication of documents	17
Sanitary Phytosanitary (SPS) and Technical Barriers	17
Consumers	18
Distribution	18
Channels of Distribution	19
Chinese Retailing	20
Supermarkets	20
Wet Markets	20
Grocery Stores	21
Restaurants	21
INVESTMENT	21
EXPORTS TO CHINA	23
EXPORTS TO HONG KONG	28
USEFUL CONTACTS	33
Canadian Government Contacts	33
Agriculture and Agri-Food Canada	34
Chinese Government Contacts	35
Chambers of Commerce	36
Trade Shows	36

CHINA

COUNTRY PROFILE

A) SECTOR INFORMATION

Background Information

The People's Republic of China has a population of 1.2 billion representing one fifth of the world's total population.

The two largest cities are Shanghai, with a population of over 13 million, and the capital Beijing with roughly 11 million. Other large cities include Tianjin, Shenyang, Wuhan and Guangzhou. About 92% of the population is ethnic Han, while the remaining 8% is comprised of approximately 56 other ethnic groups. These numbers seems insignificant, but groups such as, the Zhaug total 16 million, and Manchu 10 million. There are an additional seven ethnic groups who number in excess of 2 million each, so when considering China the various ethnic groups could provide valuable niche markets.

Demographics	
Total Population	1.251 billion
Population Growth Rate	0.93%
Breakdown by Age:	
0-14 yrs	26%
15 yrs - 64 yrs	68%
65 yrs and over	6%
Life Expectancy:	
Total Population	69.59 years
Male	68.31 years
Female	71.06 years

Source: Trade port, February 1999.

Geography

China is located in Eastern Asia between North Korea and Vietnam. Physically China is the world's fourth largest country just slightly smaller than the United States. Its land area is approximately 9.326 million square kilometers.

Due to its size China has a varied and diverse climate from tropical in the south to sub arctic in the north. The terrain is mostly mountains, high plateaus, deserts in west; plains, deltas, and hills in east.

Major Cities

	Millions
Chongqing	15.2
Shanghai	13.1
Beijing	10.7
Chengdu	9.7
Tianjin	9.0
Wuhan	7.1
Shenyang	6.7
Guangzhou	6.5

Infrastructure

China's infrastructure system is developing rapidly, but is still well below western standards. Telephones continue to be unevenly distributed numbering fewer than 2.5 telephones per 100 urban residents, and 7.5 telephones per 100 rural residents. Compared to roughly one telephone for every 2 people residing in Canada.

The railway system includes 64,900 km of track. Which includes a fairly comprehensive passenger service, and handles a great deal of product shipment in China's interior.

China has a large, but very underdeveloped highway system with 1.18 million km of roads. However, only 241,300 km are paved while 938,700 km remain unpaved severely hindering national distribution systems. This situation is improving rapidly, but improvements are focused around the rapidly developing metropolises and are still not nationwide.

China has an extensive system of waterways totaling about 110,600 km. This system is used a great deal in distributing commercial goods. Most imports into China are sent by sea. Major ports and harbors are located in Dalian, Fuzhou, Guangzhou, Haikou, Huangpu, Lianyungang, Nanjing, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Shantou, Tianjin, Xiamen, Xingang, Yantai, and Zhanjiang

The Merchant marine fleet totals 1,708 ships, with an additional 307 ships operating under the registries of Cyprus, Hong Kong, Liberia, Malta, Marshall Islands, Panama, Singapore, Saint Vincent and the Grenadines, and Vanuatu.

China has 206 airports, 192 of which have paved runways. There are 18 airports with runways over 3,047 meters, but the vast majority, 155 airports, fall into the 1,524 m to 3,047 m runway range.

Political

China is a Communist state with its capital in Beijing. China is separated into a number of Administrative divisions:

There are 23 provinces, Anhui, Fujian, Gansu, Guangdong, Guizhou, Hainan, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Jilin, Liaoning, Qinghai, Shaanxi, Shandong, Shanxi, Sichuan, Yunnan, Zhejiang, China considers Taiwan its 23rd province. Of the 23 provinces, the most prominent ones are Guangdong, Fujian, Hubei, Juangsu, Shandong, Sichuan, Liaoning, and Zhejiang.

There are five autonomous regions, Guangxi, Nei Mongol, Ningxia, Xinjiang, Xizang (Tibet).

As well, there are four municipalities, Beijing, Chongqing, Shanghai, Tianjin.

The executive branch is headed by the chief of state: President JIANG Zemin (since 27 March 1993) and Vice President HU Jintao (since 16 March 1998). The head of government is Premier ZHU Rongji (since 18 March 1998) followed by Vice Premiers. The cabinet, the State Council, is appointed by the National People's Congress (NPC). The president and vice president are elected by the NPC for five-year terms. The last election took place in March 1998 (next to be held in late 2002 or early 2003). The premier is nominated by the President, and confirmed by the NPC.

The Legislative branch is a unicameral parliament

called the National People's Congress. There are 2,979 seats whose members are elected by municipal, regional, and provincial people's congresses to serve five-year terms. The last election was held February 1998 (next to be held late 2002 early March 2003).

The legal system is a complex amalgam of custom and statute, largely criminal law. The system is continuously updated with a rudimentary civil code in effect since 1 January 1987, and new legal codes in effect since 1 January 1980. The government makes continuous efforts to begin to improve civil, administrative, criminal, and commercial law. The judicial branch is headed by the Supreme People's Court whose judges are appointed by the National People's Congress.

No meaningful political opposition, pressure groups or leaders exist.

Economy

The Chinese economy has been in a period of transition since government initiatives in 1978 were brought about to move the economy away from a centrally planned economy towards a more market oriented economy. While the desired market economy has taken hold in certain regions the economy is still guided by rigid political control, and the government continues to support state owned industries which are failing to provide even basic income to their workers. The government is continuing to support a number of these companies in order to stop the rapidly developing problem of unemployment which has struck rural workers harder than urban workers.

The Chinese economy is very susceptible to market fluctuations because the market economy is expanding rapidly all the while being hindered by bureaucratic difficulties. However, GDP has quadrupled since government initiatives began, particularly in

coastal areas, and the government continues to give more freedom to market-oriented institutions.

The on going economic growth in China is effecting certain areas of China to a greater extent than others. There are essentially three regions which range from the coastal areas such as, the provinces of Shanghai and Guangdong, which have fully developed market economies, areas which are experiencing accelerated growth due to their proximity to the fully developed regions, and finally the rural areas which have felt little if any effects from the more recent economic growth. The coastal regions are very developed consumer markets with prominent regional economies and populations in excess of 200 million people. The areas experiencing some of the highest economic growth rates surround these developed provinces. They are benefitting from their proximity to these areas, and the development of infrastructure. The interior regions are decades behind their neighbors in technology, and remain sparsely populated and agrarian based.

China's GDP of \$1,435 billion is one of the world's largest but, given the population and current and projected GDP growth rates, it should continue to grow. Coastal regions are experiencing growth rates in excess of 10% annually, and the national average for 1999 was 7.1%.

Gross Domestic Product

Total GDP	\$1,435 billion
GDP growth (1999)	7.1%
GDP per capita	US\$771.6

GDP composition by

sector	
Services	31%
Industry	49%
Agriculture	20%

Source: Tradeport, April 29, 1999.

The industrial sector is the largest in the economy at 49% of GDP. This is followed fairly closely by the services sector at 31% and the very prominent agricultural sector at 20%.

Agriculture continues to be China's largest employer which is due in part to the size of the industry and the lack of technology involved in the sector's production. However, most economic sectors suffer from a similar lack of technological development. The industry sector is developing more rapidly than most sectors due in large part to the introduction of foreign capital and companies. Unemployment is estimated at 8-10% in urban areas and is substantially higher in rural areas.

Labour Force

Total	623.9 billion
Agriculture/Forestry	53%
Industry/Commerce	26%
Construction/Mining	7%
Social Services	4%
Other	10%

Source: Tradeport, 1999.

Trade and Investment

China's total trade in 1998 was valued at US\$338 billion. In 1998, China had a positive trade balance of US\$46 billion. China's exports were valued at US\$192 billion, while imports total US\$146 billion.

China's largest export markets are the US, its

Asian neighbors of Japan, South Korea, and EU members Germany and the Netherlands. Its Asian neighbors are more important as a source of imports. Its largest partners are Japan, Taiwan, the US, Germany, and Singapore.

China's largest exports are electric machinery, clothing, textiles, footwear, toys, mineral fuels, leather and plastics. Its most significant imports are machinery, mechanical appliances, mineral fuels, plastic, and iron and steel.

Canada - China trade and investment

China is Canada's fourth largest trade partner behind the US, Japan, and the UK. In 1998 two way trade totaled \$10.149 billion. However, when Hong Kong's trade is included China is our third largest trade partner well ahead of the UK. In 1998, China accounted for 1.6% of Canada's imports and 1.16% of Canada's exports. China was Canada's 13th largest export market and China was our 16th largest source of imports.

Canada's exports to China in 1998 were valued at \$2.5 billion, representing an increase of \$130 million over 1997. Canada's largest exports to China are miscellaneous grain/seed/fruit, wood pulp, cereals and fertilizers. These products accounted for 55.2% of our exports in 1998. Imports from China for 1998 were valued at \$7.65 billion representing a 21% increase over 1997. The largest imports from China were electrical machinery, toys and sports equipment, machinery and footwear. These products represented 8% of total imports from China in 1998.

Until 1992, Canada had traditionally maintained a trade surplus with China. This imbalance has shifted to an ever growing trade deficit which has increased steadily to \$5.158 billion in 1998. This current trend of a growing trade deficit mirrors the experience of most foreign nations as China's economy develops. The trade balance is a concern to Canada, but market access has traditionally been of greater concern because of the restrictive nature of the Chinese market. However, the recent development of

China's impending inclusion into the World Trade Organization (WTO) should aid Canadian exporters a great deal, and drastically reduce the current trade imbalance. Canadian foreign direct investment in China was valued at \$464 million in 1998.

China is Canada's third largest agricultural export market. In 1998, Canada exported \$878.552 million worth of agricultural products to China. This represented an increase of more than \$250 million over 1997. However, an above average canola seed shipment accounted for 56% of exports in 1998.

Exports are still well behind totals for 1995 and 1996 which were both over \$1 billion. Declines in wheat exports are largely responsible for the decrease in exports to China. China's wheat production has increased substantially in recent years, but Canada's agri-food exports have diversified accordingly. In 1995, over 88% of Canada's exports to China were wheat nes meslin. In 1998, wheat represented less than 24% of agricultural exports to China.

Canada's largest agricultural exports to China in 1998 were; canola seeds \$492 million, fertilizers \$257 million, wheat nes meslin \$204 million, barley \$76 million, soya beans \$12.5 million, and frozen chicken offal \$12.5 million.

It should be remembered that a significant amount of Canada's agri-food, in particular processed foods, destined for China are transhipped through Hong Kong and therefore do not always appear in Chinese trade statistics.

In 1998, China exported \$194.925 million worth of agricultural products to Canada. This represented an increase of almost \$30 million over 1997 and a four year high. China's largest exports to Canada in 1998 were;

mandarins \$13 million, pasta \$10.3 million, prepared mushrooms \$7.3 million, garlic \$5 million, and walnuts \$5 million.

In November of 1999 Canada and China signed a bilateral trade agreement, which was largely a Canadianized version of a U.S.-China deal signed earlier in the year. The deal was designed to reduce tariffs across the board and remove them completely in the key high-tech sector. It addressed some uniquely Canadian concerns, particularly in the agricultural sector.

Under the agreement, China's tariffs on Canadian goods will fall from an average of 12.5% to an average of 5.2% within less than three years. China will improve access for Canadian imports of canola and canola oil, wheat, barley, malt, feed peas, alfalfa pellets, ginseng, and whiskey. For some "sensitive sectors" -- wheat and canola oil -- China will adopt tariff rate quotas that allow imports to a set volume at one tariff after which a higher tariff is triggered.

Competitors

The United States is China's largest export market accounting for almost 21% of total exports, followed by Japan at 16%, and Germany 4%. Japan is China's largest source of imports accounting for 20.1% of total imports followed by the US at 12%, and neighboring countries, Taiwan at 11.89%, and South Korea 10.7%.

The US has a large presence in the agricultural market, and is one of largest exporters of food to China. Other main competitors are New Zealand and Australia who both have a large share of the agricultural import market. China's Asian neighbors are also key competitors in the agricultural import market.

The most significant competitor in China's processed food sector is the domestic industry. The quality of the domestic industries' products in most cases is not as good as the imported equivalents, but price is still a primary consideration for Chinese consumers. Also the domestic sector still

predominately produces regional specialties which have helped it remain competitive. Hong Kong's new status within China has also aided the quality and strength of the domestic processing sector.

Hong Kong is also a very important source of imports and an export market. In fact, in 1998 21.11% of China's exports went to Hong Kong. However, large percentages of both exports to Hong Kong and imports from the region are re-exported or transhipped so the exact amount of trade is difficult to ascertain.

Trade Agreements

China is a member of the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB). It is also a member of the Asian Pacific Economic Cooperation Conference (APEC), an economic organization that aims at promoting free trade and economic cooperation in the Asia Pacific Region. Canada is also a member of APEC.

China is currently seeking to join the World Trade Organization (WTO). In late 1999 China began to take serious steps to ensure its acceptance. A bilateral trade deal signed with the US and one signed only weeks later with Canada may be key to its acceptance.

AGRICULTURE AND AGRI-FOOD OVERVIEW

At present, China is simultaneously undergoing a transformation from a self-supporting agricultural economy to a large-scale commodity economy and a transformation from traditional agriculture to modernized agriculture. As agriculture in China moves from a centrally-planned to a more market-oriented system, new constraints to efficiency are developing. Central to these are inadequate legal and banking systems and lack of an adequate system for timely information on market supply and demand.

Also, there are often considerable post-harvest losses for many commodities due to inadequate storage, handling, and transport facilities.

The most productive agricultural areas in China are concentrated in the eastern half of the country within three fertile river plains of the Yellow river, Yangtze river and the Pearl river valleys. The western region of China is primarily mountainous, containing the high plateaus of the Tibetan Highlands and the vast desert basins. While this region accounts for almost half the nation's land area it contains only 5% of the population.

China is one of the world's top producers of rice, wheat, corn, and soybeans. It is also one of the largest importers of wheat, corn, and rice.

Despite the growing market, China's policy of food self-sufficiency continues to restrict food imports. This policy also emphasizes the need to earn foreign currency by importing commodities for further processing and re-export abroad.

Rough estimates state that the food market in China is valued at roughly US\$180 million. This market is split evenly between rural and urban markets. The processed food market is valued at US\$60 million with a large percentage of these sales in urban areas.

According to the Chinese government there are roughly 50,000 food producers in China. While this may point to a number of processed food producers and a large and well developed market for processed foods, the majority of these producers are involved in the semi-production of such products as oils, seeds, and fats. Government statistics also state that 85% of these producers have some degree of state ownership.

Trade Policy and Competitive Analysis

The Chinese government actively protects domestic industries, by banning the sale of some key food producers or the sale of any agri-food producer involved in an industry the government believes is

threatened by foreign producers, such as a recent ban on the purchase of non-alcoholic beverage producers. The government has also banned certain food products from changing their brand name after a foreign buyout. The government also actively promotes investment in industries and regions it believes are the most desperate for investment while blocking investment in other sectors.

The central purchasing agency, China National Cereals, Oils, and Foodstuffs Import Export Corporation (COFCO), continues to play a key role in the importation of several commodities. The most important ones are wheat, rice, corn and edible oil. In 1994, imports of some products, including edible oil, were liberalized, allowing end users to purchase many of these products directly. In late 1994, however, COFCO reasserted central control of edible oil imports. There are currently six state enterprises, including COFCO, which are authorized to import edible oil. Other products subject to restrictive licenses, quotas, and/or state trading include sugar, tobacco, and alcoholic beverages. This reflects the fluid nature of the situation in China. Liberalised sectors may revert to central control and centrally managed sectors may be liberalized at the discretion of central authorities. Quotas are also evident for various products, both state and non-state traded. These quotas are also non-transparent and subject to administrative discretion. For example, joint-ventures importing some products that are supposedly "liberalized" (no longer subject to quantitative restrictions), such as oilseeds, have reported difficulty accessing import licences. The role of the COFCO is changing and is likely to continue to be transformed in the wake of the most recent attempt to gain access to the WTO.

Farm and Food Policy

China has liberalized much of its economy since the early 1980's, including agriculture. However, its food policy objectives have

changed little in the past 40 years. The objectives are to ensure adequate urban food supplies, accumulate sufficient grain reserves, stabilize food prices, promote food self-sufficiency, participate in world trade, and improve farm income.

Agricultural productivity has grown rapidly since the abandonment of collectivized agriculture in 1979 in favour of personal incentives and the "Household Responsibility System" (HRS). Giving decision-making back to the farmers after thirty years of central planning has improved efficiency by allowing farmers to retain the rewards of greater effort and by encouraging the reallocation of land between crops. However, crops deemed essential to social or economic stability, such as wheat, barley, rice, soybeans, corn, and cotton, remain under government regulation. They are subject to obligatory sales to the government before any surplus can be sold commercially.

In the agricultural economy, markets and market forces have become increasingly important, but since 1994 the Chinese government's role has intensified in the markets for several basic commodities. This policy reversal - intended to boost grain production - is a response to higher inflation, concerns for food self-sufficiency, and a decline in area sown to grains.

In early 1995, the central government initiated a new grain policy giving provincial governors the responsibility of maintaining the "grain bag". The policy applies to all grain crops (wheat, corn, and rice) and some oilseed crops. Governors are responsible for: a) stabilizing area sown to grains; b) guaranteeing investment in inputs like chemical fertilizer to stimulate grain production; c) guaranteeing that certain quantities of grain are put into stocks; d) insuring that scheduled transfers of grain in and out of the province are completed; e) allaying urban residents' concerns by supplying grains and edible oils and f) stabilizing grain and edible oil prices. Additional responsibilities include developing a means to control grain markets, controlling 70-80% of commercial grain sales, controlling grain imports and exports, and raising

the level of grain self-sufficiency.

The policy stimulated provincial governors to use financial and administrative means to push farmers to expand grain acreage. At the same time, the governors used their political and administrative powers to insure that appropriate quantities were available to farm families to grow grain crops.

The government now has control over the wholesale grain markets as well as local grain marketing. The government continues to maintain a tight grip on grain imports and grain exports through its state trading corporation, COFCO, and is in the process of strengthening its control over state-owned grain stocks through the State Administration for Grain Reserves.

The end result of the "grain bag" policy has been to raise the level of food self-sufficiency and reduce imports. However, the drive to increase food self-sufficiency has been costly. Considerable resources were expended by government authorities to implement the policy. Land that could have been planted with more competitive crops, such as fruits and vegetables, spices, and nuts, ended up in grain, delaying China's transition to producing a greater mix of agricultural products in which it has a comparative advantage.

In terms of the efficient use of agricultural resources, an obstacle for farmers in the past has been the government's unwillingness to allow private ownership of land. At present, all land is leased from the government, on terms which vary with the crop sown. Without secure land tenure, farmers often pursue short-run over-exploitation of the land they occupy, to over-crop and over-fertilize, to the detriment of long-run sustainability. Lease terms are currently a maximum of fifteen years (up from only three years prior to 1995) and the State Farm System (SFS) is embarking on a new round of reforms which will further

increase farmers' autonomy. It will also encourage the formation of larger and more efficient farms in the countryside. The proposals to allow land holdings held by individual households to be transferred would lead to the emergence of a more mechanized, less labour-intensive style of farming. The reluctance of peasants to invest in the land leased from the state will be overcome by extending existing tenure arrangements by an additional 30 years.

MARKET PENETRATION

Despite its recent and impressive liberalization initiatives, China has not yet implemented a number of market-economy reforms. China is currently not a member of the World Trade Organization (WTO), meaning that adherence to agreed rules and guidelines is strictly voluntary and there is no formalized provision for regulation and settlement of disputes.

It should also be noted that China remains largely a cash economy. An absence of documentation for commercial transactions, as well as the administrative burden of collecting taxes, has left import tariffs as a major governmental source of revenue. For the Chinese government to continue to meet its costs and obligations, any reduction in tariffs would need to be accompanied by increases in income taxes and/or other forms of taxation. Although some movement in this direction has taken place, tax reform remains a major long-term challenge for the Chinese authorities.

Chinese market access conditions are characterized by a lack of transparency, inconsistency in the application of rules, and the presence of administrative discretion, facilitated by the state-owned structure of many major businesses. With respect to lack of transparency, trade data and other information collection relevant to trade is often not undertaken, not published, and/or sources are not verifiable. In addition, rules, regulations and administrative decisions are often not published and there is no commentary period or consultative process in place to deal with procedural

amendments.

Certain products, such as processed food products, may enjoy relatively open access, in theory. However, it may be difficult and costly to determine the import requirements for specific products and then to meet them. Chinese quality standards, testing, inspection, labeling, and certification requirements are often unrelated to international practice. Other products, which are subject to discretionary central purchasing, may enjoy relatively straightforward access, but only within strict quantitative limits. In addition, due to the lack of transparency, it is difficult to determine whether domestic products are treated the same as imported products, or whether foreign investors receive the same treatment as Chinese enterprises. In addition, there is a strong perception that product that goes through Hong Kong may be accorded different treatment, whether "officially" or "unofficially," than product sent directly to China.

Regional Chinese Markets

Some of the inconsistency is undoubtedly due to unusual trade practices, the presence of unofficial trade channels, and/or attempts to periodically raise invisible trade barriers. However, a good part is related to problems with internal communication in China, as well as overlapping jurisdictions and discretionary authority on the part of federal, provincial, and municipal governments. For these reasons, negotiation is considered a typical way of arriving at customs valuation as well as tariff and tax rates. Exporters have strong concerns about how this uncertainty with respect to tariff and value-added taxes affects their competitive position vis-à-vis other suppliers. The situation is particularly worrisome for joint venture operations in the North,

who may be faced with paying more for their

inputs than suppliers coming in, in input or final form, in more "liberal" regions.

Existing access conditions may make it relatively difficult and costly for exporters to test product in the Chinese market. This is particularly relevant since the Chinese are such a broad and diverse group, whose tastes are changing rapidly as the result of increased incomes, travel, and general exposure to new products.

Emphasis must be placed on the fact that China is not one single market, but is composed of distinctive regional markets. The central government seeks to establish national policies for the development of key sectors such as, agriculture, oil and gas, electricity, and communications. Nevertheless, most business is conducted at the provincial and regional level. Major contracts, particularly those within the state plan, are still subject to review by central authorities, but decentralization is proceeding rapidly.

It is suggested that companies look closely at a number of regional Chinese markets and perhaps compare them to Asia's other mid-range economies. These regions include:

- a) Northeast - Heilongjiang, Jilin, and Liaoning
- b) Beijing - Hebei, Beijing, Tianjin, and Shandong
- c) Central Provinces - Shaanxi, Henan, Hubei, Anhui, Hunan, and Jiangxi
- d) Sichuan
- e) Greater Shanghai - Shanghai, Jiangsu, and Zhejiang
- f) Greater Guangdong - Guangdong, Fujian, and Hainan

Each of these regions has a population of over 100 million and gross domestic products exceeding US\$20 billion. The regions of Guangdong, Shanghai, and Beijing play a leading role. The Central Provinces and Sichuan have low per capita incomes but population density may create returns in future consumer markets.

After having focused economic resources on coastal

areas, China decided to accelerate development of the western regions in 1999. Premier Zhu Rongji will lead the development, and preferential policies, including tax breaks for foreign-invested enterprises, are meant to stimulate development in the 11 provinces, autonomous regions and municipalities. At least US\$12 billion will be provided to these regions, which lag the east by up to 20 years in development. Per capita GDP there is only 60% of the national average. Infrastructure construction, including highways, bridges and railways will be improved, and environmental protection will be highlighted in the development plan. Undoubtedly, there will be opportunities for foreign involvement in assisting in the development of these areas. A common feature of the western regions, however, is a severe lack of moisture for efficient agricultural production, which is probably the single largest drawback to successful investment in agricultural projects there.

Trade Barriers

Non-tariff barriers are administered at national and sub-national levels by the State Economic and Trade Commission (SETC), the State Development Planning Commission (SDPC), and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). These non-tariff barriers include licences, quotas and other import controls.

The level of imports permitted under these measures was determined through complex negotiations between the Central Government, the provinces, and Chinese ministries. MOFTEC uses import licences to exercise an additional nationwide system of control over some imports. Many products are subject to both quotas and restrictions on top of import licensing requirements. For these products, MOFTEC must decide whether to issue a licence after permission has been granted by other designated agencies for importation.

MOFTEC officials claim that import licences are issued automatically once other agencies have approved an import. Although China's import approval process remains complex, China is taking some important steps to streamline the process and to reduce the range of imports subject to non-tariff barriers. Central Government agencies have published many of their import administration laws and regulations, a step that is making China's trade regime more transparent.

China acted to reduce tariffs pursuant to its bilateral commitments in an effort to boost its World Trade Organization (WTO) accession bid. The country brought its average import tariff down to 23% in 1997, while making tariff reductions on more than 4 000 tariff line items, and is committed to lowering its average nominal tariff to 15% by 2000. In addition to tariffs, imports may also be subject to value-added and other taxes. Such taxes are to be charged on both imported goods and domestic products, but application has not been uniform, and these taxes may be subject to negotiation. China has used the combination of tariffs and other taxes to clamp down on imports that officials viewed as threatening domestic industries.

Import Quotas

Import quotas are established by the State Planning Commission, in consultation with users such as the provincial governors and the State Administration of Internal Trade for distribution to various users including provincial and municipal state enterprises. Reportedly, COFCO now accepts requests from users for specific qualities, origin and type of product, but the system still lacks overall flexibility. One of the main problems for users is accessing key ingredients, normally produced by branches of the same company or through licensing or other close business relationships. This is especially evident in the case of Canadian food processing joint-ventures. Examples include the malting barley/beer industry and also the chocolate and other food manufacturing industries which require specialized, highly consistent and often proprietary ingredients.

Import Documentation

Commercial invoices are required for exports, accompanied by the signature of the supplier, with the following information:

- Name and address of supplier;
- nature of goods;
- country of origin
- name and address of customer/destination
- terms
- rate of exchange
- price per unit
- total value of shipment
- total weight of shipment
- HS tariff number heading
- gross weight of each package
- full description of shipment

Authentication of documents

Documents that need to be authenticated, such as certificates of sale and letters authorizing an exporter's local agent or importer to act on their behalf, must first be notarized in Canada. At no cost to the exporter, the notarized documents can be authenticated by sending them to:

Department of Foreign Affairs and International Trade
Authentication and Service of Documents (JLAC)
125 Sussex Drive, Ottawa K1A 0G2
Telephone: (613) 992-6602
Facsimile: (613) 992-2467

Sanitary Phytosanitary (SPS) and Technical Barriers

In order to facilitate market access, Canada negotiated, updated, or signed new protocols with China with respect to the exports of cattle and swine. Although the terms represent a considerable improvement over the old protocols, the veterinary requirements remain problematic. China does not accept the

Canadian veterinary certificates and a Chinese veterinarian must oversee the inspection process before the animals leave Canada. The high rejection rate of animals on post-inspection testing is due to differences in testing procedures used by China and Canada.

Also, Canada has recently signed updated protocols on bovine semen and embryos. Requirements for meat imports have been sought from the Chinese government for some time, but the terms and conditions of access remain unclear. A protocol does exist for the import of Canadian chicken parts. So far it has been used only for chicken feet.

With regard to plant health issues, China only has a general plant health law in place with no specific regulations on how the requirements are to be met. This contributes to a lack of consistency in application. With the exception of a number of plant products (including winter wheat from Ontario, corn seed for planting, tobacco, and all potatoes), Canada has no major phytosanitary problems with China. Regarding the prohibited plant products, Canada has proposed specific certification procedures which would ensure that the products are free from the pests of concern to China. Both countries have engaged in discussions in the hopes of developing common testing procedures.

Consumers

The Chinese population is still largely rural based. In fact, even with the rapid expansion of the major cities 70% of Chinese still live in rural areas. These people are very much tied to farms or grow certain crops for personal use. This is made clear by the fact that while urban residents comprise only 30% off the population they comprise over 50% of the nation's food market, and spend two times more a month on food than their rural counter parts. Nationally food comprises 40% of household expenditures.

Due to the relative short existence of brand named products in China very few experts believed that a national brand name awareness would develop at

anytime in the near future. However, a recent study has pointed to the fact that while there are very few national brand name products, brand names are becoming increasingly popular nationwide.

Distribution

Due to the fact that each region within China oversees its own food and beverage distribution system, inter-regional trade has traditionally been weak. As a direct result, local officials often regard regional economies as proprietary, frequently creating barriers for products from other regions or countries. The development of retail chains is expected to improve this situation. Companies exporting to China may wish to invest in their own distribution infrastructure, or form distribution agreements with other western companies, to avoid any logistical problems or delays.

Given China's internal transportation difficulties and developmental disparities across regions, distribution systems vary significantly by region and market. Exporters are therefore encouraged to explore regional or metropolitan markets rather than attempting national distribution. The eastern costal regions of China, which include the cities of Shanghai and Beijing, represent the strongest consumer markets for imported goods. In contrast to the situation in China is Hong Kong's thorough and efficient distribution infrastructure of roadways, railways, and shipping companies. Hong Kong's role as a major import port for China will likely continue for the next half century. In an advanced retail sector, Hong Kong also has an expanding number of supermarkets, convenience stores, hypermarkets and warehouse stores.

Nationally the distribution system is improving due largely to the introduction of multinational corporations which have set up their own distribution systems out of necessity. Regional

governments have begun to follow suit and improve their systems due to the increased demand for new products fostered by the introduction of various multinational corporations.

More recent developments also bode well for the future of the Chinese distribution system as a whole. Some of the major factors in the improvement of the distribution system in China include:

- Introduction of private hauliers;
- Improving roads and infrastructure;
- International distribution companies now in the market;
- Individual distribution systems established by new multinationals, and
- Expanding retail industry developing its own central warehouse and distribution system.

Channels of Distribution

Several ports of entry exist in China, however Hong Kong will retain its free trade port status for 50 years from the time of reunification, making it one of the preferable import ports. Although it can be expensive to ship through Hong Kong and Southern China to reach a destination further north — particularly if it involves dealing with intermediaries along the way — the savings in tariffs can justify the overland transport expenses.

Business success in China depends upon good relationships, or *guanxi*, to ensure each element of the business can proceed smoothly, including clearing a product through customs. Many foreign companies have hired one person to deal with customs officers full-time, or using the same personnel to deal with customs issues, to develop a good relationship with the customs officers. Customs clearance times have been reported to gradually improve under these circumstances.

Distribution options available to the Canadian exporter include direct sales, existing distribution networks and warehousing, agents and sales representatives, or establishing independent distribution networks. Of these, the best option for

the small exporter exploring the Chinese market is likely the use of an agent or sales representative. There are attractive aspects to each of the other options, however, the market and retail knowledge possessed by an agent, in addition to established business contacts, make it the most cost effective option. As the exporter becomes more successful in the Chinese market, other channels of distribution will likely be more feasible and advantageous.

One of the most common import methods used by foreign companies is through a third-party import-export company based in Hong Kong. While these companies can manage product clearance through customs, and subsequent distribution in China, these companies have in the past used grey channels to avoid Chinese tariff and VAT requirements. The producer loses control over distribution by using these routes, sometimes resulting in the product being sold at prices determined by the distributor and retailer. Some products also never reach their destination, instead being re-exported for prices several times higher than the original price.

Agri-food products can be sold to China directly to importers at the local level or through Hong Kong based food distributors. Exporters may also establish joint-ventures. Traditionally many food exports to China are sold through Hong Kong based companies. Although this is an additional cost, the distribution agents eliminate some of the risk by taking care of the import restrictions and requirements, foreign currency exchange, and transportation.

Transportation of agri-food products in China is done by train and truck. Railways carry over 40% of all cargo in China. With the exception of Tibet, every province is connected to the railway system. The demand for railway transportation is rapidly increasing, but the extension and upgrade of the railway system is slow. Many manufactured goods, including

food products, are assigned a low priority, and as a result, long delays can be expected when using railways. Truck transport is an option, but road conditions may limit speed to 50-65 km/h. There is also a general lack of refrigerated transportation equipment.

China's internal transportation system around Shanghai area has improved tremendously in recent years. In September, 1996, the highway between Shanghai and Nanjing (capital city of Jiangsu province) was put into use, which gives Shanghai greater access to the neighboring areas. Secondary markets in cities like Dalian, Chongqing, and Wuhan have also developed quickly in recent years. Also, highways surrounding Beijing have increased in size and number.

Chinese Retailing

Food retail distribution is changing rapidly. Despite increased liberalization, the Chinese government is still heavily involved in the retail sector. Typically, the government is involved in state-run shops, in which products are stocked behind counters and handed to customers by the staff. State-owned stores have begun to lose business with the opening of supermarkets, which offer a wider selection of products. These shops generally stock only domestic or regional products.

The most interesting retail area for Canadian exporters is the urban food retail sector. It has three basic components: supermarkets, grocery stores, and wet markets, and may provide a number of opportunities for exporters of processed and commodity type foods.

Supermarkets

Supermarkets are upscale self-service stores with aisles and some cold storage facilities. They are principally found in Beijing, Shanghai, and Guangzhou. These stores were originally set up to serve expatriates, but the customer base has expanded to include the emerging middle to high income Chinese consumers. Domestically owned

supermarkets are expanding and upgrading their existing facilities. Foreign supermarket chains from Hong Kong and Japan are entering what they see as high growth areas such as Shanghai and Guangzhou. The number of supermarkets in Shanghai alone is expected to rise to 1,000 by the year 2000.

While the number of supermarkets in China has grown over the past few years, the improved broader selections of foods has been the key factor in moving a significant amount of business away from the numerous smaller independent shops. Large selection of products and exposure to Western foods have made supermarkets and convenience stores very popular, particularly among younger generations of consumers. The growth will continue, as more supermarkets continue to open to service the growing demand.

Wet Markets

The most popular food retail outlets in China are the wet markets. They are the traditional vending stands selling fresh fruit and vegetables, meat, and fish. Most Chinese consumers have a strong preference for fresh food and, therefore, shop daily.

The Chinese consumer is still very much reliant on wet markets for its grocery needs. Commodities still make up a majority of food purchases so the need to shop at grocery stores exclusively is minimal. Shoppers generally visit wet markets four times a week. These markets are within walking distance, and are as much a chance for social interaction as a shopping necessity. The popularity of wet markets is not expected to decline drastically at any point in the near future. While younger consumers turn to modern supermarkets more than older generations the number of young

shoppers frequenting wet markets exclusively is well below 30% of the total segment.

Grocery Stores

Local grocery stores, or mom and pop type local stores continue to be the number one outlet for processed food purchases, and their location and inclusion in many city and community designs has ensured their future dominance. Consumers generally frequent mom and pop stores up to four times a week.

Restaurants

Upscale Western-style restaurants are becoming common in some of China's larger centers. Both these and hotel restaurants are excellent venues for introducing new products since they cater to upper-middle-class Chinese consumers and expatriates, both of whom have higher disposable incomes. Hotels, restaurants, airlines and railway companies are potential customers for fruit juice products. Joint venture products, or imported goods, particularly recognized brand names, tend to be items perceived as being of higher quality.

INVESTMENT

Despite policies that still restrict or prohibit foreign investment in many sectors of its economy, China has been remarkably successful in attracting it to those sectors in which it wishes to encourage foreign investment. This is especially true in the coastal regions and Special Economic Zones. With tremendous in-flows of foreign investment, particularly over the past 4-5 years, China has become the second largest recipient of foreign direct investment in the world, after the US. China's government has always presented barriers to foreign investment, however, with the recent relaxation of austerity measures, central government authorities are showing somewhat greater flexibility in approving investment. Overall, the lack of transparency of laws and regulations continues to hinder the investor.

Nonetheless, the Chinese Government still prohibits foreign investment for projects with objectives not in line with national economic development

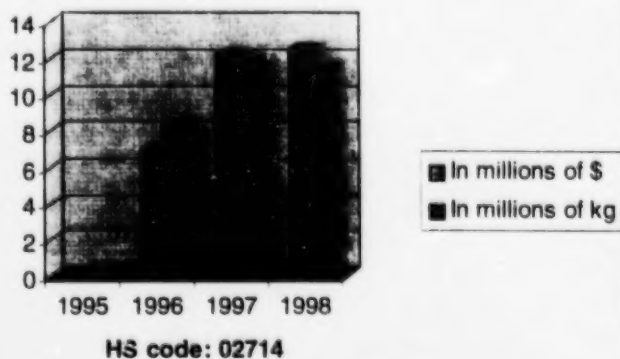
planning. There remain several areas in which foreign investment is restricted or prohibited. China hinders foreign investment by insisting on fulfilment of specific local content requirements if companies are to import under anything other than prohibitive tariff rates. Many foreign firms are sometimes unable to export from their Chinese ventures because of uncompetitive cost, poor quality or unreliable delivery schedules. Furthermore, foreign enterprises are often limited in their scope. Generally, they are prohibited from directly importing and reselling goods without further processing.

China has begun to implement new policies designed to cut back incentives for foreign investment and to channel foreign investment to certain industry sectors and areas of the country. In June 1995, China published lists of the sectors in which it would encourage foreign investment (particularly in basic infrastructure and high-technology industries), or restrict or prohibit foreign investment. In the latter case, the policy is designed to protect domestic industries for political, economic or national-security reasons. In April 1996, China eliminated duty and value-added tax exemptions for the equipment imported as part of a foreign investment, thereby significantly raising the costs of foreign investment in joint-venture and wholly-foreign owned manufacturing. However, several grand fathered exemptions, as well as exemptions related to Special Economic Zones, appear to still be in place. The government has placed more emphasis on attracting foreign investment to poorer inland provinces.

EXPORTS TO CHINA

The following exports represented 96.4% of Canada's total agri-food exports to China in 1998.

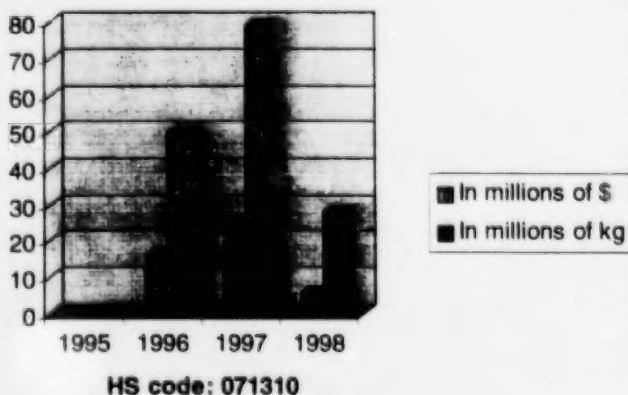
Canadian Exports of Chicken and Capon Cuts



Chicken capon cuts represented 1.4% of Canada's agri-food exports to China in 1998. China was our 2nd largest market for this product.

Canada exported \$12.560 million worth of chicken capons to China in 1998. This represented a slight increase of \$350,000 over 1997.

Canadian Exports of Dried Peas

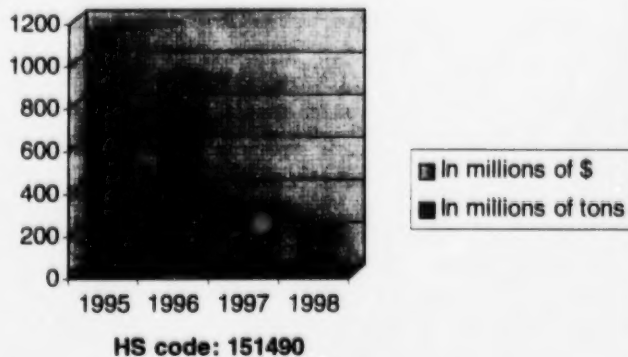


Dried peas represented 0.6% of Canada's total agri-food exports to China in 1998. China was our 9th largest market for this product.

Canada exported \$5.833 million worth of dried peas to China in 1998. This was a significant decline from a four year high in 1997 of \$23 million.

Exports to China

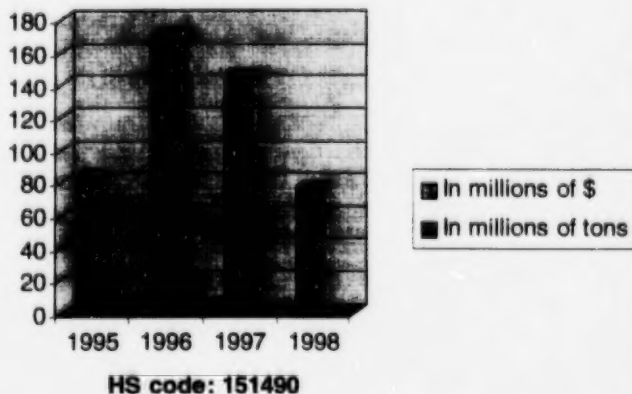
Canadian Exports of Wheat nes and Meslin



Wheat nes and meslin represented 23.2% of Canada's agri-food exports to China in 1998. China was our 4th largest market for this product.

Exports of wheat and meslin to China have been declining steadily since 1995's high of \$1.1 billion due to falling world prices and increasing domestic production. Canada exported \$204.579 million worth of wheat and meslin to China in 1998, representing a decline of \$92 million over 1997.

Canadian Exports of Barley

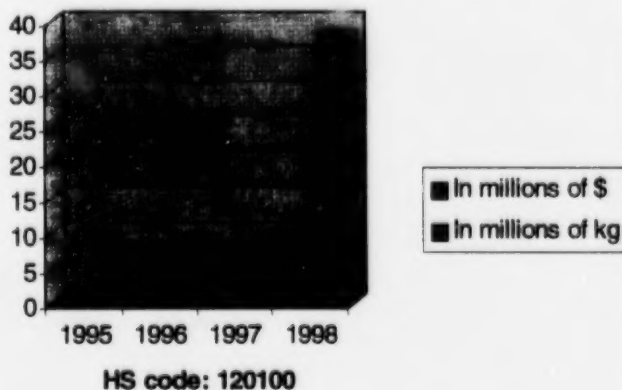


Barley represented 8.7% of Canada's total agri-food exports to China in 1998. China was our 2nd largest market for this product.

Canada exported \$76.515 million worth of barley to China in 1998. This represented a decline of \$70 million over 1997 and a four year low for the period.

Exports to China

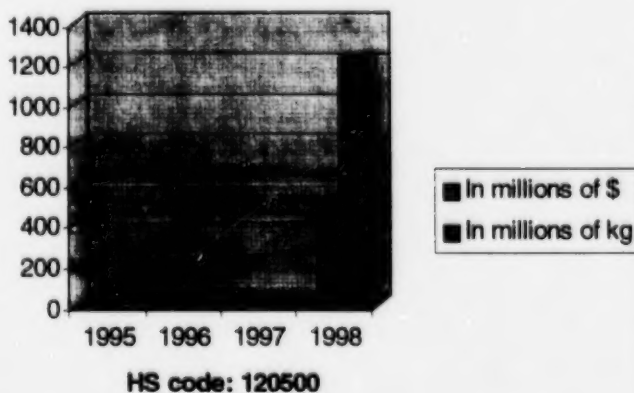
Canadian Exports of Soya Beans



Soya beans represented 1.4% of Canada's agri-food exports to China in 1998. China was our 10th largest market for this product.

Canada exported \$12.544 million worth of soya beans to China in 1998, representing a four year high. Exports of soya beans to China have been increasing steadily since 1995, and 1998 represented a significant increase of \$9.4 million over 1997.

Canadian Exports of Canola Seeds

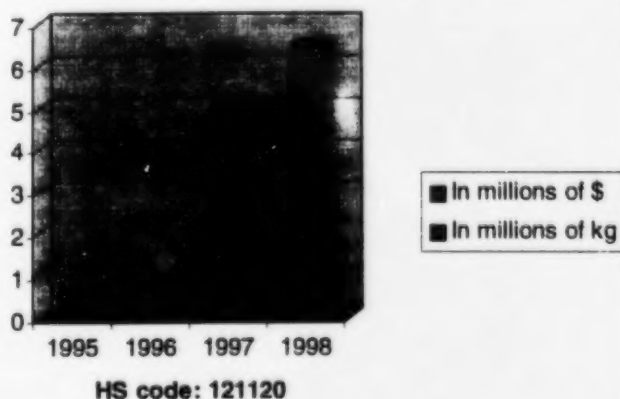


Canola seeds represented 56% of Canada's agri-food exports to China in 1998. China was our 2nd largest market for this product.

Exports of canola seeds to China resumed in 1998 after a brief stoppage in 1997. Canada exported \$492.878 million worth of canola seeds to China in 1998. This represented a four year high and an increase in excess of \$400 million over both 1995 and 1996.

Exports to China

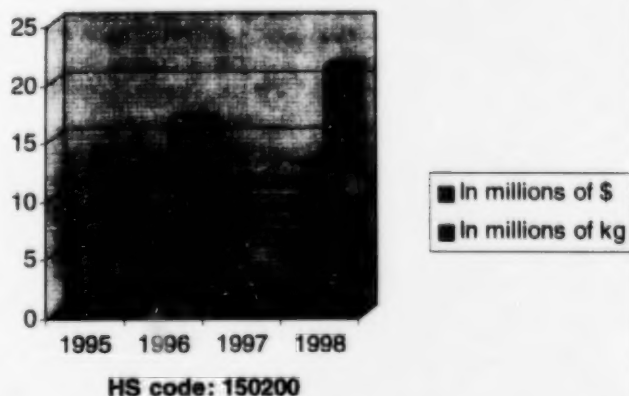
Canadian Exports of Ginseng Roots



Ginseng roots represented 0.7% of Canada's agri-food exports to China in 1998. China was our 2nd largest market for this product, behind only Hong Kong.

Canada exported \$6.504 million worth of ginseng roots to China in 1998. This represented a four year high, and an increase of \$1.3 million over 1997.

Canadian Exports of Animal Fats

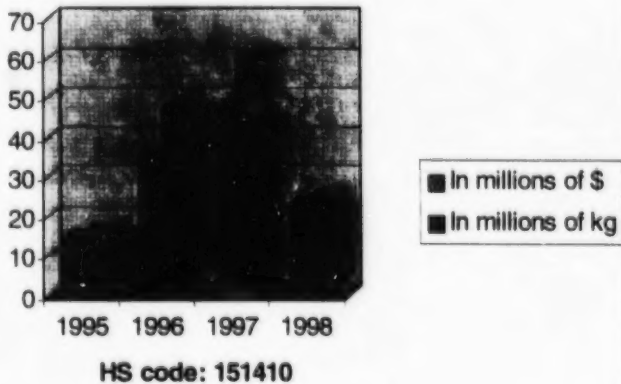


Animal fats represented 1.4% of Canada's total agri-food exports to China in 1998. China was our 5th largest market for this product.

Canada exported \$12.759 million worth of animal fats to China in 1998. This was a four year high and a \$11.5 million increase over 1997.

Exports to China

Canadian Exports of Crude Canola Oil



Canola oil represented 2.6% of Canada's total agri-food exports to China in 1998. China was our 4th largest market for this product.

Canada exported \$23.161 million worth of canola oil to China in 1998. This represented a decline of \$25 million over 1997.

USEFUL CONTACTS

Canadian Government Contacts

Agriculture and Agri-Food Canada

Sir John Carling Building
930 Carling Avenue
Ottawa, ON, K1A 0C5
Jim de Graaf
Tel: (613) 759-7644
Fax: (613) 759-7505

Canadian Embassy

19 Dongzhimenwai Dajie
Chaoyang District
Beijing, PRC 100600
Tel: (86-10) 6532-3536
Fax: (86-10) 6532-4072
E-mail: bruce.howard@dfait-maeci.gc.ca
Internet:
<http://www.canada.org.hk/english/index.html>
Contact: Mr. Bruce Howard

Agriculture and Agri-Food Canada

International Markets Bureau
930 Carling Ave., 10th Floor
Ottawa, ON K1A 0C5
Contact: Jane Morisset
Tel: (613) 759-7637
Fax: (613) 759-7506
E-mail: morissetj@em.agr.ca

Consulate General of Canada, Hong Kong

Commercial Division
13/F, Tower 1
Exchange Square
Central, Hong Kong
Tel: (852) 2847-7414
Fax: (852) 2847-7441
E-mail: commerce@hkong02.x400.gc.ca
Internet:
<http://www.canada.org.hk/english/index.html>

Department of Foreign Affairs & International Trade

China Division
125 Sussex Dr.
Ottawa, ON K1A 0G2
Contact: David Murphy
Tel: (613) 992-6129
Fax: (613) 943-1068

Business Organizations

Export Development Corporation

151 O'Connor Street
Ottawa, ON
K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
Email: export@edc4.edc.ca
Internet: <http://www.edc.ca>

Business Development Bank of Canada

Specialized financing of small and medium sized business.
Tel: 1-888-463-6232

Canadian Commercial Corporation

Export contract advice and assistance.
Tel: 1-800-748-8191

Alliance of Manufacturers and Exporters Canada

Canada's leading business network.
Tel: (613) 238-8888/(416) 798-0000

NORTHSTAR

Trade Finance Inc.

Tel: (604) 664-5828

Agriculture and Agri-Food Canada

The Agri-Food Trade Service regional contacts:

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St. John's, NF
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E-mail: mcisaaca@em.agr.ca

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E-mail: manning@em.agr.ca

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E-mail: royl@em.agr.ca

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E-mail: burkes@em.agr.ca

Rodney Dlugos
Edmonton, AB
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E-mail: dlugosr@em.agr.ca

Chinese Government Contacts

Embassy of the Peoples Republic of China

515 St. Patrick Street,
Ottawa, ON K1N 5H3
Telephone: (613) 789-3434
Facsimile: (613) 789-1911

Chinese Consulate

240 St. George Street,
Toronto, ON M5R 2P4
Telephone: (416) 964-7260
Facsimile: (416) 324-6468

Chinese Consulate

3380 Granville Street,
Vancouver, BC V6H 3K3
Telephone: (604) 734-7492
Facsimile: (604) 737-0154

State Administration for Entry/Exit Inspection and Quarantine

A-10 Chaowaidajie
Chaoyang District, Beijing
100020
Tel: (86-10)6599-4546
Fax: (86-10)6599-4306

Ministry of Foreign Trade & Economic Cooperation (MOFTEC)

2 Dongchangan Jie, Dongcheng Qu,
Beijing 100731
Telephone: (01) 6519-8843
Facsimile: (01) 6519-8904

Customs General Administration

6 Jianneidajie
Beijing 100730
Telephone: (01) 6519-4144
Facsimile: (01) 6512-6020

Guangzhou Foreign Economic Relations and Trade Commission

1 Fu Qian Road, Guangzhou 510032
Telephone: (020) 333-360
Facsimile: (020) 334-0362

China Customs Authority

Director General
Customs General Administration of the People's
Republic of China
Avenue Jian-Guo-Men Nei, 6
Beijing, P.R.C.
Tel: (86-10) 6519-5244
Fax: (86-10) 6519-4004

China Council for Promotion of International Trade (CCPIT)

1 Fuxing Men Waidajie,
Beijing 100860
Telephone: (01) 6801-3344
Facsimile: (01) 6801-1370

Guangdong Province Foreign Economic Relations and Trade Commission

305 Dongfeng Road C,
Guangzhou 510030
Telephone: (020) 333-0860
Facsimile: (020) 334-4112

Ministry of Agriculture

11 Nonzhanguan Nanli, Hepinili,
Beijing 100026
Telephone: (01) 6419-2452
Facsimile: (01) 6419-22451

Ministry of Foreign Affairs

2 Chaoneidajie
Beijing 100701
Telephone: (01) 6513-5566
Facsimile: (01) 6512-9568

Ministry of Foreign Trade & Economic Cooperation, Guangzhou

Foreign Trade Centre Building,
117 Liu Hua Road
Guangzhou 510014
Telephone: (020) 667-8000 ext.86011
Facsimile: (020) 667-7040

Chambers of Commerce

China Chamber of International Commerce

1 Fuxingmenwai Dajie, Beijing
Telephone: (86010) 6851-3344
Facsimile: (86-10) 6851-1370

Shanghai Sub-Council

14/F New Town Mansion
55 Loushanguan Lu
Shanghai, China
Telephone: (86-21) 6275-0700
Facsimile: (86-21) 6275-6364

Asia Pacific Foundation of Canada

666-999 Canada Place
Vancouver, BC V6C 3E1
Telephone: (604) 684-5986
Facsimile: (604) 681-1370

China Chamber of Commerce for Import/Export of Foodstuffs, Native Produce and Animal By-products

95 Beiheyuan Dajie
Dongchengqu, Beijing, China
Telephone: (86-10) 6513-2569
Facsimile: (86-10) 6513-9064

Canada-China Business Council

Suite 802, 110 Yonge Street
Toronto, ON M5C 1T4
Telephone: (416) 954-3800
Facsimile: (416) 954-3806

Canada-China Business Council

Suite 18-2, CITIC Building
19 Jianguomenwai Dajie
Chaoyang District
Beijing, 100004
Telephone: (86-10) 6512-6120
Facsimile: (86-10) 6512-6125

Trade Shows

Agrofood Tech (Agricultural technologies,
animal husbandry, machinery, etc.)

April 11-14, 2000 Beijing

Food China 2000, with Wine and Spirits 2000

June 20-23, 2000 Beijing